

## REMARKS

Applicants respectfully request reconsideration of the present application in view of the foregoing amendments and in view of the reasons that follow. This amendment adds, changes and/or deletes claims in this application. A detailed listing of all claims that are, or were, in the application, irrespective of whether the claim(s) remain under examination in the application, is presented, with an appropriately defined status identifier.

Claims 11-19 have been cancelled without prejudice.

Claims 1, 8 and 20 are currently being amended.

Claim 25 is added as new.

After amending the claims as set forth above, claims 1-10, 20-25 are now pending in this application.

### **I. CLAIM OBJECTIONS AND REJECTIONS UNDER 35 U.S.C. § 112 AND § 101**

#### *A. Claim Objections*

On page 2 of the Office Action, the Examiner objected to claims 18 and 19. Applicant has cancelled claims 18-19 and therefore these objections are believed to be moot.

#### *B. § 112 Claim Rejections*

On page 2 of the Office Action, the Examiner rejects claims 6, 8, 15 and 20 on the basis of 35 U.S.C. § 112. The Examiner states that the aforementioned claims are: (i) “indefinite for failing to particularly point out and distinctly claim the subject matter which applicant regards as the invention”.

With respect to claim 6, Applicants respectfully submit that antecedent basis is established for the “information” recited in claim 6. Claim 6 depends from claim 5 which recites, “storing information pertaining to a mapping relationship”. (emphasis added). The information recited in claim 6 is the same as the information recited in claim 5.

Claims 8 has been amended and is believed to be in compliance with § 112 in its amended form. Applicant has cancelled claim 15 therefore this rejection is believed to be moot.

With respect to claim 20, Applicants have amended claim 20 to provide antecedent basis for the term “servicer” in the “accounting” step. Accordingly, Applicants respectfully submit that antecedent basis is established with respect to “the servicer” recited therein.

Accordingly, it is believed that claims 6, 8 and 20 are currently in condition for allowance.

*C. § 101 Claim Rejections*

On page 3 of the Office Action, the Examiner rejects claims 11-19 under § 101. Claims 11-19 have been cancelled. Remaining claims 1-10 and 20-25 are believed to be in condition for allowance.

**II. CLAIM REJECTIONS UNDER 35 U.S.C. § 102(B) & § 103(A)**

*A. Claims 1-10 and 25*

On page 4 of the Office Action, the Examiner rejects claims all independent claims 1, 11 and 20 under § 102(b) as being anticipated by U.S. Patent No. 6,012,047 titled “Reverse Mortgage Processing System” to Mazonas et al. (hereinafter “Mazonas”).<sup>1</sup>

Applicants have amended the claims to more clearly distinguish over the prior art. Applicants have recognized that it would be advantageous to provide greater flexibility in creating investment instruments which are backed by cash flows from residential mortgage loans and which are more highly tailored to hedge against different types of risks. As described in the Background section of Applicants’ specification, in the global capital markets, various

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<sup>1</sup> The Examiner also rejected Claims 2-6, 8-10, 17-18 and 21-24 under 35 U.S.C. § 103(a) as being rendered obvious citing combinations of Mazonas, U.S. Patent No. 6,233,566 titled “System, Method and Computer Program Product for Online Financial Products Trading” to Levine et al. (hereinafter “Levin”) and U.S. Patent No. 6,070,151 titled “System for the Creation and Collateralization of Real Estate Mortgage Investment Conduit Securities” to Frankel (hereinafter “Frankel”).

investment instruments have been created that provide investors with the ability to invest in instruments of varying investment horizons and risk characteristics. For example, in the context of the secondary mortgage market, real estate mortgage investment conduits (REMIC) instruments have been devised. Many mortgage-backed securities, however, are limited in terms of the number of different types of investment instruments that can be created.

In order to allow for a greater variety of investment instruments, the present invention as defined by claim 1 seeks to provide a method of creating and maintaining financial assets which accentuate different types of sub-loan level risk associated with a plurality of home mortgage loans. The financial assets are sold to different investors in the capital markets, and the different investors may then use the financial assets to hedge against the risks that oppose the different types of sub-loan level risk.

Thus Amended Claim 1 recites a repackaging step that is not provided in Mazonas (nor any of the provided references). Repackaging includes a number of sub-steps, including “selecting,” “packaging” and “repeating” steps. The selecting step recites as follows:

selecting a sub-combination of the plurality of sub-loan level cash flows, the sub-combination of sub-loan level cash flows comprising like-ones of the plurality of sub-loan level cash flows from across the plurality of home mortgage loans, and the sub-combination of sub-loan level cash flows exhibiting heightened sensitivity to at least one of the different types of sub-loan level risk in accordance with the heightened sensitivity to the at least one of the different types of sub-loan level risk exhibited by the like-ones of the sub-loan level cash flows that form the sub-combination of sub-loan level cash flows,

For example, the sub-combination of the plurality of sub-loan level cash flows that may be selected include cash flows derived from late payment fees. The late payment fees are “like-ones of the plurality of sub-loan level cash flows from across the plurality of home mortgage loans,” that is, they are like each other (they are all late payment fees) and they are selected from across the plurality of home mortgage loans. The late payment fee cash flows in combination exhibit heightened sensitivity to the sub-loan level risk in accordance with the heightened sensitivity to the sub-loan level risk exhibited by each of the late payment fee cash flows individually.

The packaging step recites as follows:

packaging the sub-combination of sub-loan level cash flows to create one of the financial assets, the financial asset that is created accentuating the at least one of the different types of sub-loan level risk in accordance with the heightened sensitivity exhibited by the sub-combination of sub-loan level cash flows, thereby configuring the financial asset to operate as a hedge against a risk that opposes the at least one of the different types of sub-loan level risk,

In the illustrated example, the cash flows derived from late payment fees would be packaged to form a financial asset. As compared to the mortgage loan as a whole, the financial asset accentuates the risk associated with late payment fees not being received, i.e., in accordance with the heightened sensitivity which is exhibited by the combination of late payment fee cash flows which back the financial asset. The financial asset that is formed is thereby configured to operate as a hedge for the investor, for example, against the risk of a sudden downturn in the economy.

The repeating step recites as follows:

repeating the selecting and packaging steps to create additional financial assets, the additional financial assets including different financial assets which accentuate other ones of the different types of sub-loan level risk and which exhibit heightened sensitivity to the other ones of the different types of sub-loan level risk as compared to the sensitivity to the other ones of the different types of sub-loan level risk exhibited by the plurality of home mortgage loans as a whole, thereby configuring the additional financial assets to operate as hedges against other risks that oppose the other ones of the different types of sub-loan level risk;

Thus, in the same way as has been described in connection with a financial asset backed by late payment fees, other financial assets are created which accentuate other ones of the different types of sub-loan level risk. It may be noted that the financial assets may be backed by combinations of sub-loan level cash flows from each loan. For example, to more optimally configure a financial asset to operate as a hedge against a certain type of risk, the financial asset may be backed by late payment fees as well as other ones of the sub-loan level cash flows or portions thereof which exhibit other risk characteristics. The financial assets that are thereby created are

configured to operate as hedges against other risks that oppose the other ones of the different types of sub-loan level risk.

Applicants respectfully submit that the process as defined by claim 1 is not taught or suggested by Mazonas. Accordingly, allowance of claim 1 is respectfully requested.

Moreover, claims 2-10 and 25 depend from claim 1 and are believed to be allowable for at least those reasons articulated with respect to claim 1.

Additionally, with respect to Claim 25 which also recites a selling step as follows: “selling the financial assets to different investors in the capital markets, thereby permitting the different investors to hedge against the risks that oppose the different types of sub-loan level risk.” Thus, the financial assets that are created by decomposing and repackaging sub-loan level cash flows from home mortgage loans are sold to different investors in the capital markets, thereby permitting the different investors to use the financial assets to hedge against the risks that oppose the different types of sub-loan level risk.

*B. Claims 20-24*

The other independent claim 20 includes features which are similar to those discussed above in connection with claim 1, and accordingly are believed to be allowable at least for the reasons that claim 1 is allowable. Amended Claim 20 recites steps that are not provided in Mazonas (nor any of the provided references). Claim 20 (as amended) recites “selecting,” “packaging” and “repeating” steps:

20. A method of creating and maintaining financial assets which accentuate different types of sub-loan level risk associated with a plurality of home mortgage loans comprising...

selecting a sub-combination of the plurality of sub-loan level cash flows, the sub-combination of sub-loan level cash flows comprising compensation provided to the servicer from across the plurality of home mortgage loans, and the sub-combination of sub-

loan level cash flows exhibiting heightened sensitivity to at least one of the different types of sub-loan level risk,

packaging the sub-combination of sub-loan level cash flows to create a financial assets, the financial asset accentuating the compensation provided to the servicer, and

repeating the selecting and packaging steps to create additional financial assets, the additional financial assets including different financial assets which accentuate other types of sub-loan level risk and which exhibit heightened sensitivity to the other ones of the different types of sub-loan level risk thereby configuring the additional financial assets to operate as hedges against other risks that oppose the other ones of the different types of sub-loan level risk. (emphasis added).

As indicated with respect to claim 1, none of the provided references teach/suggest the “selecting,” “packaging” and “repeating” steps recited in amended claim 20. Accordingly, it is respectfully submitted that claim 20 is allowable. Dependent claims 21-24 are believed to be allowable for the reasons that claim 20 is allowable, and for reciting other novel and non-obvious features.

### III. CONCLUSION

Applicants believe that the present application is now in condition for allowance. Favorable reconsideration of the application as amended is respectfully requested. The Examiner is invited to contact the undersigned by telephone if it is felt that a telephone interview would advance the prosecution of the present application.

The Commissioner is hereby authorized to charge any additional fees which may be required regarding this application under 37 C.F.R. §§ 1.16-1.17, or credit any overpayment, to Deposit Account No. 19-0741. Should no proper payment be enclosed herewith, as by the credit card payment instructions in EFS-Web being incorrect or absent, resulting in a rejected or incorrect credit card transaction, the Commissioner is authorized to charge the unpaid amount to Deposit Account No. 19-0741. If any extensions of time are needed for timely acceptance of

papers submitted herewith, Applicants hereby petition for such extension under 37 C.F.R. §1.136 and authorizes payment of any such extensions fees to Deposit Account No. 19-0741.

Respectfully submitted,

Date April 7, 2008

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